



**RESTRICTED** — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Legislative Liaison, a record of which is kept by the Distribution Section, Publications Branch, OAS

COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-169422  
6-5-70

089888

B-169422

*loom*

RELEASED

JUN 5 1970

Dear Mr. Gubser:

We refer to your letter of March 20, 1970, requesting us to study the application by the City of Hollister, California, for a grant from the Economic Development Administration (EDA), Department of Commerce, for the construction of an industrial sewage treatment facility. You requested that our review give particular attention to the agency's decision to provide grant funds for 50 percent rather than 70 percent of the cost of constructing the facility. It should be noted that in cases involving the exercise of administrative discretion by the head of an agency--granted him by statutory authority--the role of the General Accounting Office is generally limited to expressing an opinion on the reasonableness of the decision rather than directing the head of the agency to alter his decision.

The City of Hollister, California, submitted an application to EDA on October 29, 1968, for financial assistance in the construction of an industrial sewage treatment facility estimated to cost \$565,000. The city requested a grant of \$395,500, or 70 percent of the cost of constructing the facility, and a loan of \$169,500. The loan request was canceled on the basis of the applicant's request of May 23, 1969, because the two companies which will primarily benefit from the project agreed to finance 30 percent of the project costs. Also, the application was revised by EDA to increase the project cost to \$632,000 to reflect increases in construction costs. Under the revised application, if approved, the city would receive a grant of \$442,400, or 70 percent of project cost.

Our review, made at EDA's headquarters in Washington, D. C., included an examination of EDA policies and procedures for authorizing public works loans and grants; an examination of pertinent files pertaining to the application for assistance by the City of Hollister, California; and interviews with EDA officials.

BACKGROUND

The Public Works and Economic Development Act of 1965 (42 U.S.C. 3121) authorizes EDA to provide Federal financial assistance for areas designated as redevelopment areas and centers, including direct and supplementary grants and loans for public works and development facilities; loans for industrial

915713

089888

and commercial facilities; working capital loan guarantees; and technical, planning, and research assistance. Direct grants and supplementary grants for public works and development facilities, and loans for projects such as water and sewer systems and industrial parks may be made to any State or political subdivision thereof, Indian tribe, and private or public nonprofit organization or association representing any redevelopment area or part thereof.

The Assistant Secretary for Economic Development, Department of Commerce, has been designated as the head of EDA. EDA's Office of Public Works reviews and recommends approval or denial of applications for financial assistance for projects. The Assistant Secretary for Economic Development approves or denies applications on the basis of the Office of Public Works' recommendations.

Section 401 of the act provides, in part, as follows:

"\* \* \* The Secretary shall designate as 'redevelopment areas' (1) those areas in which he determines, upon the basis of standards generally comparable with those set forth in paragraphs (A) and (B), that there has existed substantial and persistent unemployment for an extended period of time and those areas in which he determines there has been a substantial loss of population due to lack of employment opportunity. There shall be included among the areas so designated any area--

"(A) where the Secretary of Labor finds that the current rate of unemployment, as determined by appropriate annual statistics for the most recent available calendar year, is 6 per centum or more and has averaged at least 6 per centum for the qualifying time periods specified in paragraph (B); and

"(B) where the Secretary of Labor finds that the annual average rate of unemployment has been at least--

"(i) 50 per centum above the national average for three of the preceding four calendar years, or

"(ii) 75 per centum above the national average for two of the preceding three calendar years, or

"(iii) 100 per centum above the national average for one of the preceding two calendar years."

Section 402 of the act requires the Secretary to conduct an annual review of all areas designated as redevelopment areas, and on the basis of this review, to terminate or modify the designations of areas.

Section 101 of the act authorizes direct grants by EDA of up to 50 percent of the cost of an eligible project. Also, the act authorizes supplementary grants to increase the Federal grant contribution, up to an amount not to exceed 80 percent of the cost of a project, to help those States and other entities within redevelopment areas that have difficulty raising local matching funds to take advantage of various Federal grant-in-aid programs. The total direct and supplementary grant for an area, however, cannot exceed the maximum grant rate established by EDA as explained in the following paragraphs.

EDA established a schedule of maximum grant rates applicable to designated redevelopment areas which is designed to reflect the relative needs of the areas. These rates were set at 50, 60, 70, or 80 percent of the cost of the project. In establishing maximum grant rates, EDA considers the severity and duration of economic distress as indicated by the average annual unemployment in the last calendar year, the average annual unemployment over the last 4 years, and the median family income levels.

In establishing grant rates above 50 percent on the basis of the prior year unemployment rate, EDA uses the following criteria:

<u>Unemployment Rate</u>	<u>Maximum Grant Rate</u>
8.0 to 9.9 percent	60 percent
10.0 to 11.9 percent	70 percent
12 or higher percent	80 percent

DESIGNATION OF SAN BENITO COUNTY AS A REDEVELOPMENT AREA

San Benito County, California, in which the City of Hollister is located, was designated as a redevelopment area on May 16, 1967, on the basis of its annual unemployment rate of 10.7 percent for the preceding year. A 70-percent maximum grant rate was established at that time since the unemployment rate fell within the range of 10.0 to 11.9 percent. In 1968 the maximum grant rate for the county was increased to 80 percent as a result of an increase

in the unemployment rate to 12.2 percent. The maximum grant rate was dropped to 70 percent during 1969 because of a decrease in the annual unemployment rate to 11.4 percent. As of February 1970, the maximum grant rate remained at 70 percent.

#### BASIS FOR GRANT DETERMINATION

Section 101(c) of the act requires that, in determining the amount of any supplementary grant available to any project, EDA consider the relative needs of the area, the nature of the project, and the amount of such fair user charges or other revenues that the project may reasonably be expected to generate in excess of those which would amortize the local share of initial costs and would provide for its successful operation and maintenance, including depreciation. Section 101 also authorizes direct grants of up to 50 percent of project cost; however, the act does not require that revenues be considered in determining the amount of a direct grant.

The Office of Public Works' Manual of Procedures provides that the amount of a supplementary grant to an applicant for a project determined to be eligible for grant assistance shall be computed by reducing the estimated cost of the project by (a) the lesser of the applicant's share of the cost of the project or 50 percent of such cost and (b) the amount of the direct grant. The applicant's share of the cost of a project is generally considered to be the amount of a loan that could be amortized by the revenues that the project could reasonably be expected to generate over a 30-year period. This amount cannot be less than the applicant's minimum share, which was 30 percent for San Benito County for fiscal year 1970, on the basis of the maximum grant rate of 70 percent set for the area by EDA. The applicant may finance his share of project costs from his funds or obtain a loan from EDA or from private interests. On the basis of these rates established by EDA, the City of Hollister initially requested that the project for which it was requesting assistance be financed by a grant for 70 percent of the cost of the project and a loan for the remaining 30 percent.

The Office of Public Works' Manual of Procedures prescribes the method to be used to determine fair user charges for sewage treatment facilities. Generally, the method prescribed provides that the estimated quantity of industrial waste, measured in pounds of Biochemical Oxygen Demand per month, to be processed through the proposed system is to be converted to an equivalent quantity of residential waste, which in turn, is to be used as a basis for determining the equivalent annual revenues which could be derived from the operation of a residential type facility with the equivalent capacity of

the proposed facility. This method was used by EDA in its determinations concerning the City of Hollister's project, and according to an EDA engineer, is similar to the method used by many communities to determine sewage charges to industrial facilities.

From the applicant's engineering report, EDA determined that the two canning factories that would be using the proposed facility would contribute 23,000 pounds of Biochemical Oxygen Demand per day to the system during the 100-day canning season each year. It was also determined, on the basis of information provided by the applicant, that the average sewer charge in the Hollister area is \$1 per month per residential unit.

Based on this information, EDA determined that the pounds of Biochemical Oxygen Demand loading to the proposed system by the two canning factories would be equivalent to the pounds of Biochemical Oxygen Demand loading from 11,800 residential units. This would provide an annual equivalent revenue of \$141,600 which would be offset by an allowance of \$9,400 for annual estimated operation and maintenance costs. The resulting net annual equivalent revenues of \$132,200 were determined to be sufficient to support a 30-year, 5-3/4 percent loan in excess of \$1 million. The maximum loan amount that would be needed without a supplementary grant would be \$316,000, or 50 percent of the estimated project costs of \$632,000.

In accordance with EDA's procedures for determining entitlement to supplementary grants, the grant was reduced to 50 percent since, on the basis of the fair user charge determination, EDA concluded that the applicant could support a loan for the entire amount of the requested supplementary grant and absorb its required minimum share of project costs.

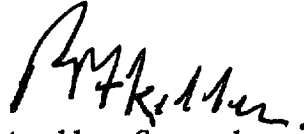
Our review of EDA's calculations of the fair user charges revealed no irregularities, and showed that the calculations were made in accordance with the policies governing the establishment of supplementary grants available pursuant to section 101 of the act. Accordingly, we have no basis on which to question EDA's proposed elimination of the supplementary grant for the City of Hollister industrial sewage treatment facility project.

We have not obtained formal comments from the Department of Commerce on the matters discussed in this report. We plan to make no further distribution of this report unless copies are specifically requested and then we

B-169422

shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. M. Kettner". The signature is written in a cursive style with a prominent initial "R" and a long, sweeping underline.

Assistant Comptroller General  
of the United States

The Honorable Charles S. Gubser  
House of Representatives